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CHIPMAN MINING AND ENERGY CORPORATION 1981

UNIVERSITY OF ALBERTA
FACULTY OF BUSINESS ADMINISTRATION
AND COMMERCE
FRANCIS G. WINSPEAR COLLECTION

CHIPMAN

MINING AND ENERGY CORPORATION LTD.



1981
ANNUAL REPORT

Chipman Mining and Energy Corporation Ltd. is a Canadian resource oriented company with over 90% Canadian ownership, and with a large number of U.S. and other foreign shareholders.

Chipman Mining and Energy Corporation Ltd. is listed on the Alberta Stock Exchange (Calgary) with the trading symbol CML.

The producing oil wells of the Company are located in Western Canada. Prospective acreage is held in the States of Montana, Utah and New Mexico, U.S.A.

The landholdings and exploration activities in the U.S.A. are conducted through a wholly owned subsidiary, Cimarron Petroleum Corporation (Utah).

As reported, Chipman Mining and Energy Corporation Ltd. has applied and requested to be listed in the U.S.A. initially over the counter by Blue Sky Listing and ultimately through NASDAQ.

Letter to Shareholders

On behalf of the Board of Directors, we are pleased to present the annual report of your company for the year ended October 31, 1981.

The past year has seen dramatic changes in the petroleum industry.

In the U.S.A., the liberalization policies have provided a great impetus for development; these development plans have however been curtailed with the prevailing high interest rates.

In Canada, The National Energy Policy, the Canadianization Policy, the agreements between the Federal and Provincial Governments resulting in higher royalties, the 1981 fall budget, and the high interest rate policies of the banks have added additional cost to the operation.

Your management has anticipated some of the events and has taken steps to reduce the impact resulting from these changes.

The agreements between the Canadian Federal and Provincial Governments provide generous exploration and development grants for largely Canadian owned companies. Your company intends to make full use of these programs for its exploration and development prospects in Canada.

Your company has come out of the present downturn healthier and stronger than before, and through acquisitions has established a solid base in the U.S.A. The diversification efforts in the U.S.A. are now conducted in the States of Montana, Utah and New Mexico.

Besides the acquisitions in the U.S.A., your management has approached several oversea prospects and will continue to do so to provide a wider operation and income base for your company.

Submitted on behalf of the Board.

C. M. Tirkanits,
President

Calgary, Alberta
February 2, 1982

Petroleum Exploration, Development and Production

Western Canada

Maidstone, Saskatchewan

Lease number PN-16037, consisting of 320 acres with 100% interest. Eight wells drilled in 1979, seven wells in production. Production and sales of crude oil:

	<u>Production (Incl. Inventory)</u>		<u>Net Sales</u>
	m ³ (Net)	Barrels	(Excl. Inventory)
1979	35.5	223.3	—
1980	6,051.3	38,062.7	\$474,605
1981	6,426.0	40,419.5	\$642,460

An updated engineering reservoir evaluation made in May 1981 shows the following reserves in the McLaren Sand:

Estimated oil in place: 1,184,000 m³ or 7,445,000 STB

Estimated recoverable conventionally,
gross as of May 1981: 84,500 m³ or 531,500 STB

Estimated total recoverable, using 30% recovery factor: 355,200 m³ or 2,234,208 STB

A previous preliminary reservoir study shows crude reserves in the Waseca Sand; this zone has not yet been exploited.

Estimated oil in place: 459,506 m³ or 2,890,296 STB

Estimated total recoverable with primary and
tertiary (30% recovery factor): 137,852 m³ or 867,089 STB

The Sparky Sand zone appears to be less commercially viable but was recommended for testing purposes.

A gas zone of commercial value in the Colony Sand and in the Waseca Sand has not yet been given a current value.

Petroleum Exploration, Development and Production

United States

Montana

	<u>Lease Serial No.</u>	<u>Acreage</u>	<u>% Interest</u>
Fergus County lease	M-24819	2,120.00	97%
Pondera County lease	M-29740	80.00	92.5%

Recent geological report indicates good hydrocarbon potential, and your management is preparing a drilling and financing program.

Utah

	<u>Lease Serial No.</u>	<u>Acreage</u>	<u>% Interest</u>
Grand County leases	U-20047-B	1,387.87	97%
	U-20047-A	682.80	97%
	U-25965	275.22	97%
	U-20035	1,330.07	97%
	U-20035-A	1,208.91	97%
	U-20400-A	320.00	97%
		<u>5,204.87</u>	

Independent geologist report indicates 684,037 barrels of oil may be recovered at \$33 U.S. per barrel, about \$22,573,221 U.S. dollars.

Your management is preparing a drilling and financing program.

New Mexico (Catron County)

T. 3 N., R. 20 W.

Sec. 9: N½

Sec. 19: Lots 2, 3, 4, S½NE¼,
SE¼NW¼, E½SW¼, SE¼

Sec. 35: All

<u>Parcel No.</u>	<u>Acreage</u>
NM-798	1,436.55

This property was recently acquired by our U.S. subsidiary, Cimarron Petroleum Corporation (Utah), through a simultaneous oil and gas lease draw.

The hydrocarbon potential of the property is under evaluation.

Future Exploration and Prospects

Your management is investigating several other prospective areas. These include prospects in the Far East, Western Canada, Kansas U.S.A., and others.

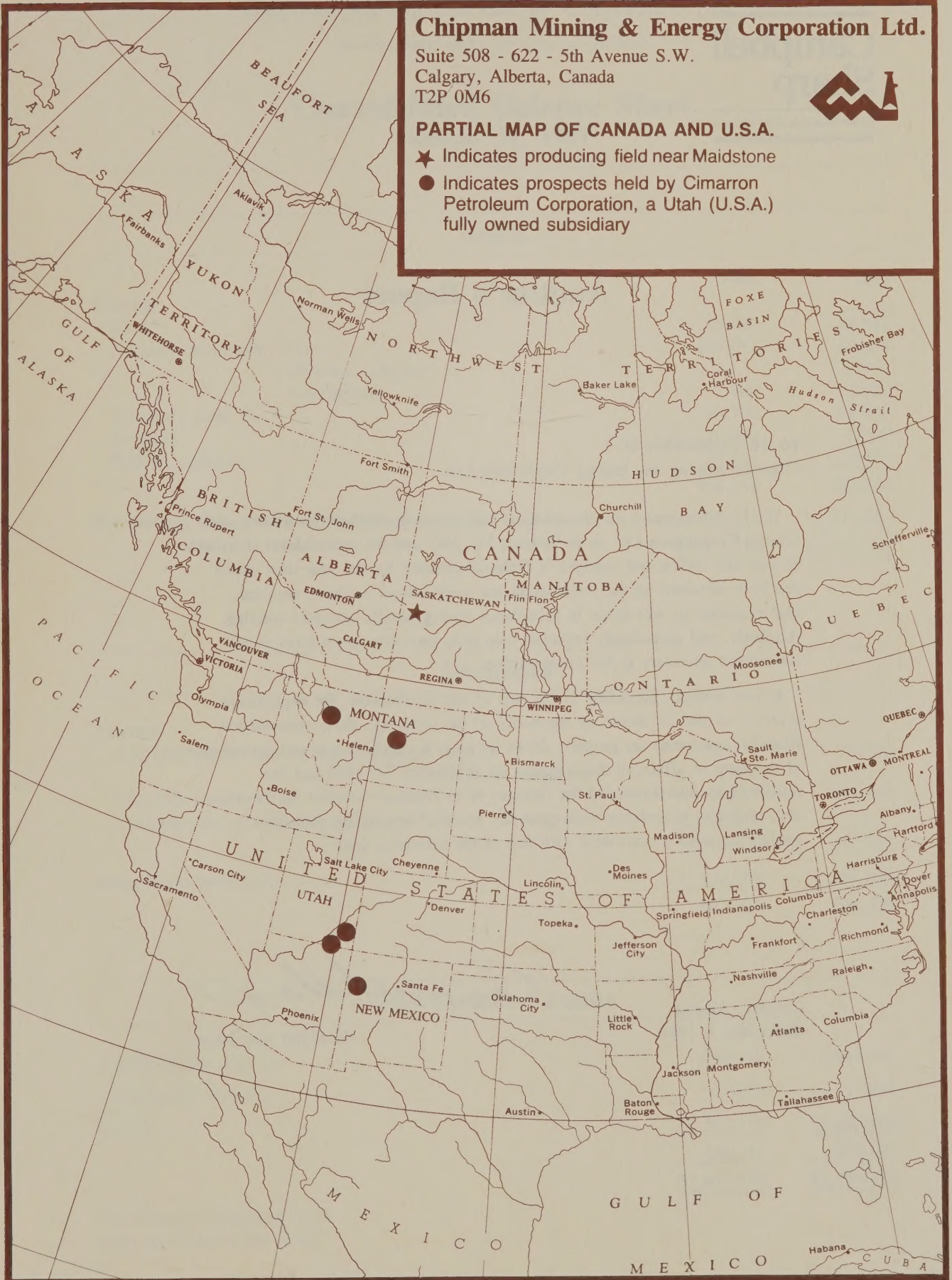
Chipman Mining & Energy Corporation Ltd.

Suite 508 - 622 - 5th Avenue S.W.
Calgary, Alberta, Canada
T2P 0M6



PARTIAL MAP OF CANADA AND U.S.A.

- ★ Indicates producing field near Maidstone
- Indicates prospects held by Cimarron Petroleum Corporation, a Utah (U.S.A.) fully owned subsidiary



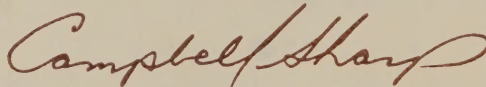
Auditor's Report

To the Shareholders of
Chipman Mining and Energy Corporation Ltd.

We have examined the consolidated balance sheet of Chipman Mining and Energy Corporation Ltd. as at October 31, 1981 and the consolidated statements of loss and deficit and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, according to the best of our information, the explanations given to us and as shown by the books of the company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of affairs of the company as at October 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
December 2, 1981



Chartered Accountants

Chipman Mining and Energy Corporation Ltd.

(Incorporated under the laws of Quebec)

Consolidated Balance Sheet
October 31, 1981

Assets		
	1981	1980
Current		
Cash	16,960	28,672
Accounts receivable - trade	109,655	80,218
- affiliated company	—	72,116
- shareholders	904	2,038
Inventory (note 1)	20,700	20,700
Deposits	10,000	10,000
Prepaid expenses	10,623	8,932
	<u>168,842</u>	<u>222,676</u>
Investment, Properties and Equipment (note 2)	<u>883,131</u>	<u>976,742</u>
	<u>\$1,051,973</u>	<u>\$1,199,418</u>
Liabilities		
Current		
Accounts payable and accrued liabilities - trade	55,112	55,797
- affiliated companies	7,095	—
Royalties payable	19,909	136,890
Petroleum and gas revenue tax payable	34,518	—
	<u>116,634</u>	<u>192,687</u>
Long-Term Debt (note 3)	<u>550,968</u>	<u>467,883</u>
	<u>667,602</u>	<u>660,570</u>
Shareholders' Equity		
Capital Stock (note 4)	1,944,131	1,944,131
Contributed Surplus	17,559	17,559
Deficit	<u>(1,577,319)</u>	<u>(1,422,842)</u>
	<u>384,371</u>	<u>538,848</u>
	<u>\$1,051,973</u>	<u>\$1,199,418</u>

The financial statements have
been approved by the Board

Director *C. M. Tisler*

Director

[Signature]

Chipman Mining and Energy Corporation Ltd.

Consolidated Statement of Loss and Deficit
For the Year Ended October 31, 1981

	1981	1980
Revenue		
Production income	656,856	487,859
Royalties expenses	(215,234)	(161,890)
	<u>441,622</u>	<u>325,969</u>
Well servicing assistance credits	18,955	—
Sale of production incentive credits	98	212,714
Other	<u>1,484</u>	<u>—</u>
	<u>462,159</u>	<u>538,683</u>
Expenses		
Production	152,744	44,245
General and administrative		
- consulting and professional fees	66,865	137,995
- other	116,115	87,259
Interest - current	66,677	49,009
- long-term	49,617	28,173
Depreciation and depletion	<u>130,100</u>	<u>113,935</u>
	<u>582,118</u>	<u>460,616</u>
(Loss) Earnings Before Taxes and Extraordinary Item	<u>(119,959)</u>	<u>78,067</u>
Petroleum and gas revenue tax	<u>34,518</u>	<u>—</u>
(Loss) Earnings Before Extraordinary Item	<u>(154,477)</u>	<u>78,067</u>
Extraordinary Item		
Gain on forgiveness of long-term debt	<u>—</u>	<u>200,000</u>
Net (Loss) Earnings	<u>(154,477)</u>	<u>278,067</u>
Deficit, beginning of year	<u>(1,422,842)</u>	<u>(1,700,909)</u>
Deficit, end of year	<u><u>\$(1,577,319)</u></u>	<u><u>\$(1,422,842)</u></u>
(Loss) Earnings Per Share		
(Loss) earnings before extraordinary item	<u>\$(0.04)</u>	<u>\$0.02</u>
Net (loss) earnings	<u><u>\$(0.04)</u></u>	<u><u>\$0.07</u></u>

Chipman Mining and Energy Corporation Ltd.

Consolidated Statement of Changes in Financial Position
For the Year Ended October 31, 1981

	1981	1980
Working Capital Increased By		
Long-term debt (net)	83,085	191,629
Issue of shares	—	150,000
Proceeds from deposit on petroleum and natural gas properties	—	200,000
	<u>83,085</u>	<u>541,629</u>
Working Capital Decreased By		
Operations		
Loss (earnings) before extraordinary item	154,477	(78,067)
Items not affecting working capital		
Depreciation	(45,265)	(63,935)
Depletion	<u>(84,835)</u>	<u>(50,000)</u>
Working capital decreased (increased) by operations exclusive of extraordinary item (1980 - \$200,000)	24,377	(192,002)
Expenditures		
Furniture and fixtures	2,264	2,903
Production equipment	—	44,258
Petroleum and natural gas properties	33,245	54,098
Sundry investment	<u>980</u>	<u>20</u>
	<u>60,866</u>	<u>(90,723)</u>
Increase in Working Capital	22,219	632,352
Working Capital (Deficiency), beginning of year	<u>29,989</u>	<u>(602,363)</u>
Working Capital, end of year	<u><u>\$52,208</u></u>	<u><u>\$29,989</u></u>

Chipman Mining and Energy Corporation Ltd.

Notes To The Consolidated Financial Statements

October 31, 1981

1. Significant Accounting Policies

Principle of consolidation

The consolidated financial statements include the accounts of the company and its wholly owned subsidiary, Great Winetou Petroleum Limited.

Inventory

Crude oil inventory is valued at net realizable value as determined under terms of existing purchase agreements.

Oil and gas properties and depletion

The company follows the full cost method of accounting, under which all costs relating to the exploration and development of oil and gas reserves are capitalized, whether productive or non-productive. Depletion is computed on the total of all such costs by the unit of production method based upon the total estimated proven reserves of oil and gas. Saskatchewan production incentive credits are income if sold before they are earned, otherwise they are a reduction of petroleum and natural gas lease costs.

Depreciation

Declining balance depreciation is applied to write-off the cost of petroleum and natural gas production equipment and the furniture and fixtures over their estimated useful lives at the rates of thirty percent and twenty percent respectively.

Income taxes

The company follows the tax allocation method of accounting for income taxes. As at October 31, 1981 the company had approximately \$797,000 of deductible exploration and development expenses and \$235,000 of earned depletion deductions to be carried forward and applied to future taxable income.

2. Investment, Properties and Equipment

	1981	1980
Petroleum and natural gas leases including exploration and development expenditures, at cost	909,819	876,574
Accumulated depletion	(134,835)	(50,000)
Petroleum and natural gas production equipment, at cost	282,718	282,718
Furniture and fixtures, at cost	5,167	2,903
Accumulated depreciation	(180,738)	(135,473)
Sundry investment, at cost	1,000	20
	<u>\$883,131</u>	<u>\$976,742</u>

3. Long-Term Debt

The bank production demand loan originally granted for \$550,000 is subject to a maximum three year term with full payout expected by April 30, 1983. The loan is secured by demand promissory notes, a registered assignment of book debts, inventory and proceeds of production, and bears interest at the bank prime lending rate plus 1.5%. The loan is repayable out of future production proceeds and accordingly is not expected to require the use of existing working capital; therefore, no portion of the loan has been reclassified to current liabilities.

270,000	225,000
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Advances from an affiliated company bearing interest at the bank prime lending rate plus 2% with no repayment terms specified.

280,968	242,883
<u>\$550,968</u>	<u>\$467,883</u>

4. Capital Stock

1981	1980
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Authorized

5,000,000 common shares without par value

Issued

3,869,160 common shares

<u>\$1,944,131</u>	<u>\$1,944,131</u>
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At October 31, 1981 a stock option granted during a prior year to a related party permitting 100,000 common shares to be purchased at an exercise price of \$1.50 per share, expiring on June 21, 1985 was outstanding.

5. Related Party Transactions

In the normal course of business the company engages the services of an affiliated company which is also a shareholder to supply consulting services. Payments under various contracts and additional payments were \$169,000 (1980 - \$137,000).

The company paid interest of \$49,617 (1980 - \$28,173) to an affiliated company which is also a shareholder.

6. (Loss) Earnings Per Share

(Loss) earnings per share figures are calculated using the weighted average number of shares outstanding during the period. The exercise of the outstanding options would not be dilutive.

7. Subsequent Events

On November 27, 1980 the company signed an agreement that required approval from various regulatory authorities, to purchase all the issued common shares of Cimarron Petroleum Corporation for the following consideration:

- (a) the issue of 20,000 shares of capital stock of Chipman Mining and Energy Corporation Ltd.;
- (b) the granting of a stock option for the issue of 50,000 shares of capital stock of Chipman Mining and Energy Corporation Ltd. exercisable at \$1.65 per share and expiring on December 2, 1986 and
- (c) \$30,000 cash.

Regulatory approval was given on December 2, 1981.

Corporate Information

Directors:

Jess H. Chua, Ph.D., Calgary
E. T. Percy, B.A., M.B.A., Toronto
Garnet M. Schulhauser, Calgary
C. M. Tirkanits, President, Calgary
N. M. Tirkanits, P.Eng., Chairman of the Board, Calgary, Montreal

Officers:

C. M. Tirkanits, President
Jess H. Chua, Ph.D., Vice President, Finance; Chairman of the Financial Management Area,
Faculty of Management, University of Calgary
Garnet M. Schulhauser, Vice President, Law; Secretary of the Company; Partner of Burnet,
Duckworth & Palmer
E. del Rosario, B.S.C., Treasurer

Corporate Head Office:

Chipman Mining and Energy Corporation Ltd.
508, 622 - 5th Avenue South West, Calgary, Alberta T2P 0M6
Telex 03-827886 Telephone (403) 237-6447
Office Administration: M. P. Rolland, Office Supervisor

Registrar and Transfer Agent:

Crown Trust Company
Calgary, Alberta; Montreal, Quebec; Toronto, Ontario

Bankers:

Toronto Dominion Bank	Walker Bank & Trust Company
Toronto Dominion Square	ZCMI Center Office
317 - 7th Avenue South West	Suite 237, ZCMI Center
Calgary, Alberta T2P 2Y9	Salt Lake City, Utah 84111

Auditors:

Campbell Sharp, Chartered Accountants
Suncor Tower, 601, 500 - 4th Avenue South West, Calgary, Alberta T2P 2V6

Engineers and Geologists:

Bar Engineering Ltd., Heavy Oil Engineering, Lloydminster
Farries Engineering (1977) Ltd., Petroleum Consultants, Calgary
Lundberg-Tirkanits and Associates Limited, Professional Engineers, Toronto and Calgary
Dr. I. H. Magas, Geologist, Calgary
Mr. Jon Zeisloft, Consulting Geologist, Holladay, Utah

Legal Counsels:

Burnet, Duckworth & Palmer	Alexander H. Walker, Jr.	Pruitt & Gushee
Esso Plaza, East Tower, 32 Flr.	Suite 840 Kennecott Building	875 Beneficial Life Tower
425 - 1st Street South West	Ten East South Temple Street	Salt Lake City, Utah 84111
Calgary, Alberta T2P 3L8	Salt Lake City, Utah 84133	Telephone (801) 531-8446
Telex 03-825585	Telephone (801) 521-3292	
Telephone (403) 260-0100		

Stock Exchange Listing:

Alberta Stock Exchange, Calgary
Symbol: CML

Subsidiary Companies:

Cimarron Petroleum Corporation (Utah)
Great Winetou Petroleum Limited

